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ontario brewers' institute

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TELEPHONE 363-6356

October 25, 1963.

The Ontario Committee on Taxation,
88 University Avenue,
TORONTO 1, ONTARIO.

Dear Sirs:

This submission is presented to the Ontario Committee on Taxation by the Ontario Brewers' Institute on behalf of all the brewing companies in the province.

In this submission we shall cover the following matters:

I. Credentials of the Ontario Brewers' Institute.

II. Objectives of the Submission.

III. General Views.

IV. Tax Inequities, Anomalies, and Recommendations.

V. History of the Ontario Brewing Industry.

VI. The Importance of the Industry to the Economy of the Province.

VII. Conclusion.

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I. CREDENTIALS OF THE ONTARIO BREWERS' INSTITUTE.

The Ontario Brewers' Institute was formed in July, 1963. It replaced the Ontario Division, Dominion Brewers Association, provincial branch of the national trade association for the brewing industry. Dominion Brewers Association was recently renamed Brewers Association of Canada.

The Institute is the industry's provincial trade association, speaking on behalf of the Ontario brewing companies on such matters as the provincial government's fiscal and legislative policies as they affect the brewing industry; it functions as the industry's public relations organization; and it encourages ethical and lawful trade practices in the manufacture, sale, and distribution of beer in the province.

All brewing companies in the Province of Ontario are members of Ontario Brewers' Institute. They are:

The Carling Breweries Limited
Doran's Northern Ontario Breweries Limited
Dow Brewery (Ontario) Limited
Formosa Spring Brewery Limited
Fort Frances Brewing Company Limited
John Labatt Limited
Molson's Brewery (Ontario) Limited
O'Keefe Brewing Company Limited

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II. OBJECTIVES OF THE SUBMISSION

The purpose of this submission is to demonstrate to the Ontario Committee on Taxation that various inequities and anomalies exist in the present taxation system which produce undesirable social effects, and have an adverse impact on the growth of an important segment of the Ontario economy, namely, the brewing industry.

This submission recommends corrective tax changes.

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III. GENERAL VIEWS

The following general views of the brewing industry underlie the objectives of this submission:

1. Beer is regarded as the beverage of moderation by the adult population of Ontario. This has been borne out by an independent study conducted by International Surveys Limited in 1962. This view is supported also by many governments and social scientists regulating and studying alcoholic beverage consumption.
2. Any shift in consumption away from beer and towards beverages of higher alcoholic content is socially undesirable.
3. Relative price levels are a major factor influencing consumption patterns of different alcoholic beverages.
4. As a result of special taxes and other rising costs it is difficult for the industry to hold the present price line and to maintain for beer, in relation to other alcoholic beverages, its desirable role as the beverage of moderation.
5. The problems of the brewing industry, and the tax burden carried by the industry and its products should be considered separately from, but in proper relation to, those of other alcoholic beverages. Moreover, the Ontario Government's taxes on the brewing industry should be considered not only in the light of the provincial government's revenue needs, but also in the light of its responsibility for regulating the consumption of alcoholic beverages in a socially desirable way.

III. General Views

6. The brewing industry today consists of responsible, well-managed enterprises, comparable with other Ontario industries which satisfy a widespread public demand for legitimate products and entitled to earn profit for their shareholders.

Moreover, public attitudes toward the role of the industry and its products in the Ontario way of life as reflected in the International Survey Limited study, the actions of other governments, and opinions held by many social scientists, suggest that the brewing industry should no longer be dealt with as a permissive industry in respect of taxation, as might have been the case years ago.

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IV. TAX INEQUITIES, ANOMALIES, AND RECOMMENDATIONS

On the pages which follow we will show that:

(a) The present burden of taxation carried by the brewing industry has undesirable social effects and impedes the growth of the industry.

(b) Inequities and anomalies exist in the application of:

  (i) The Ontario Gallonage Levy;

  (ii) The Ontario Retail Sales Tax.

(c) The imposition of store licence fees is unwarranted,

and we will make the following recommendations:

(a) The gallonage tax rate should be reduced immediately to a lower level to bring beer taxation more in line with that borne by other manufactured products.

(b) The gallonage levy should be recognized for what it is -- a consumer tax -- and should be levied in the same manner as the Ontario Gasoline Tax.

(c) The Ontario Retail Sales Tax Act should provide exemption for beer because it is already taxed under the Liquor Control Act.

(d) Store licence fees should be discontinued.

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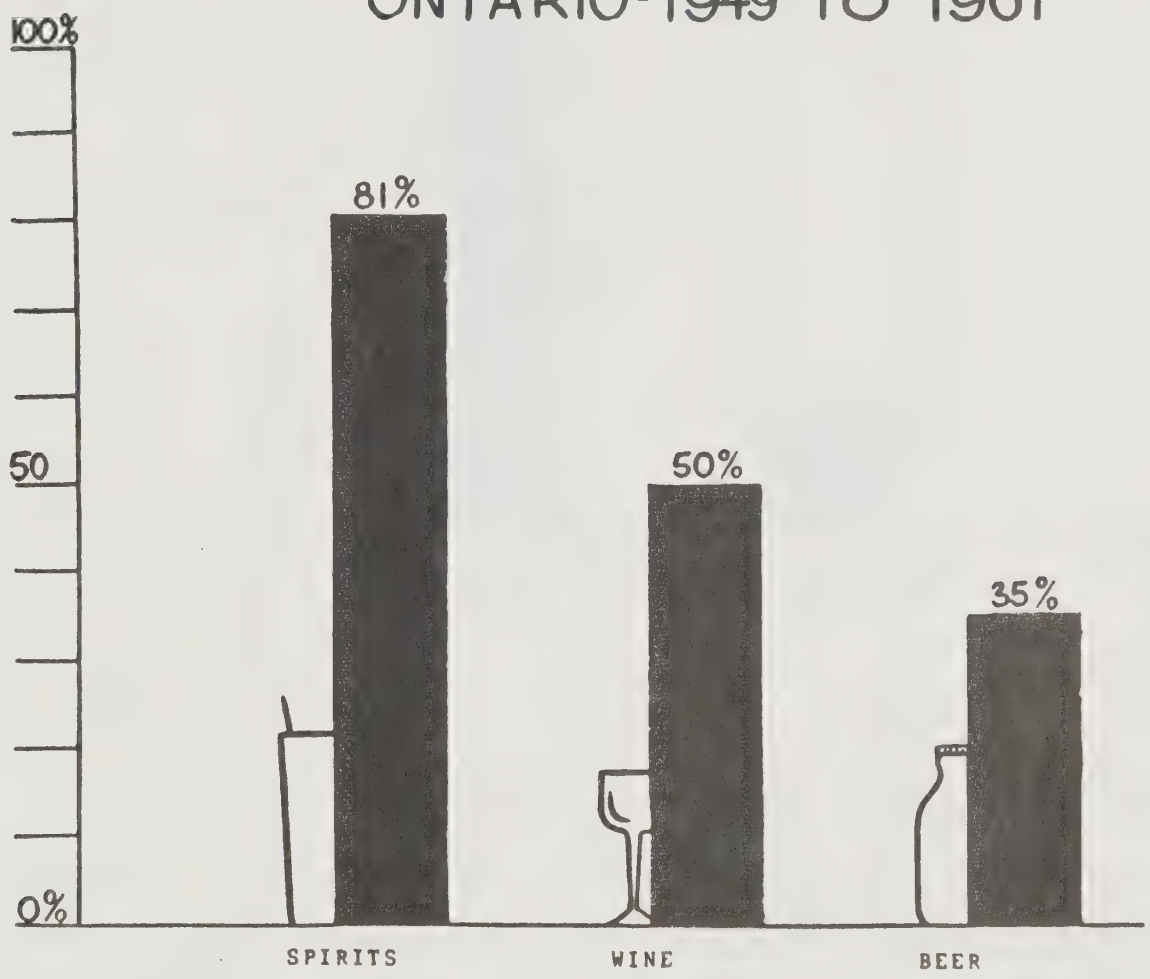
(a) The Present Burden of Taxation

Consumption trends in Ontario show a significant shift away from beer, as demonstrated by the following charts prepared by W. A. Beckett Associates Limited, based on information obtained from annual reports of the Liquor Control Board of Ontario.

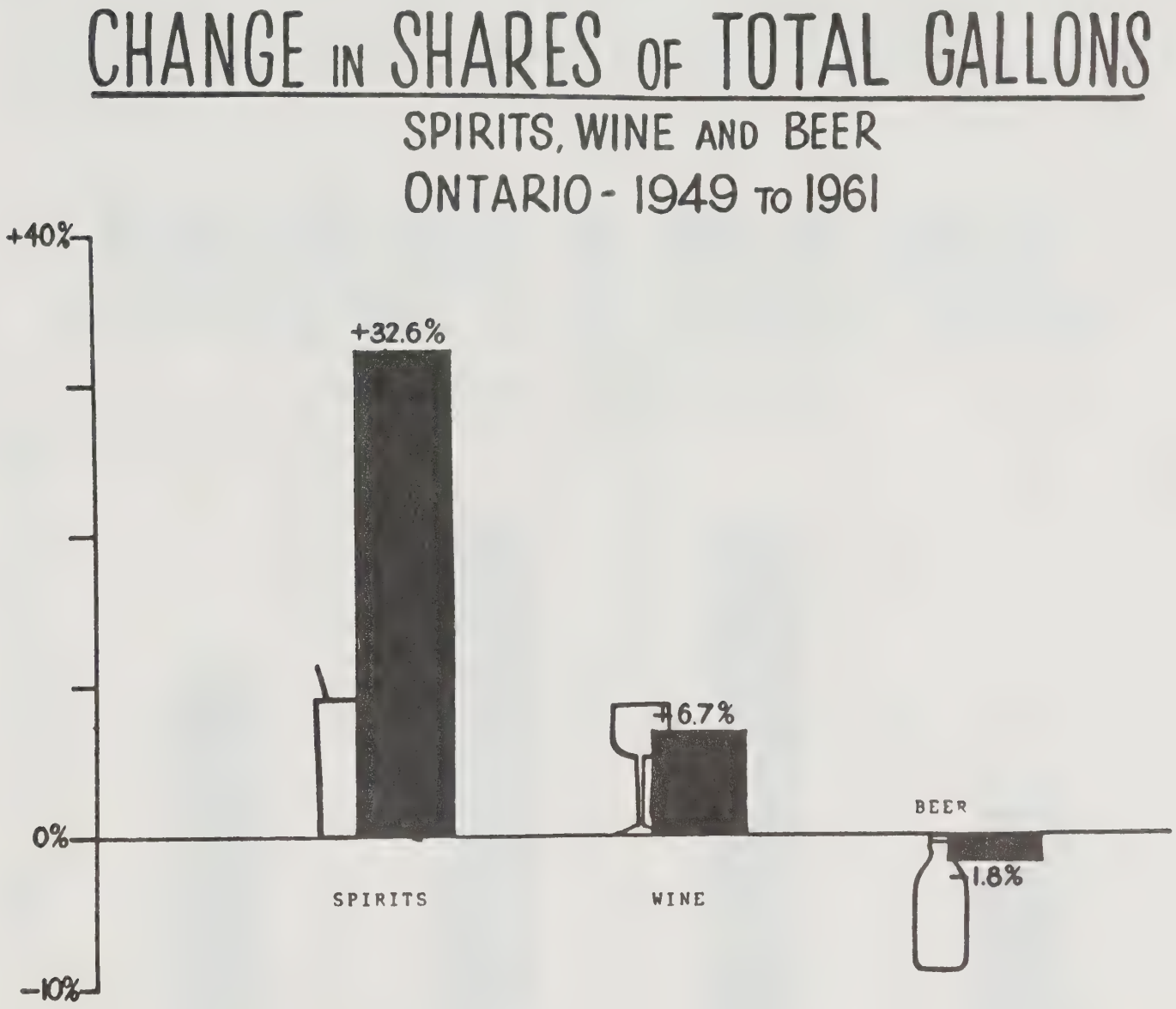
PERCENT RISE IN GALLONS SOLD

SPIRITS, WINE, BEER AND ALL ALCOHOLIC BEVERAGES ONTARIO-1949 TO 1961



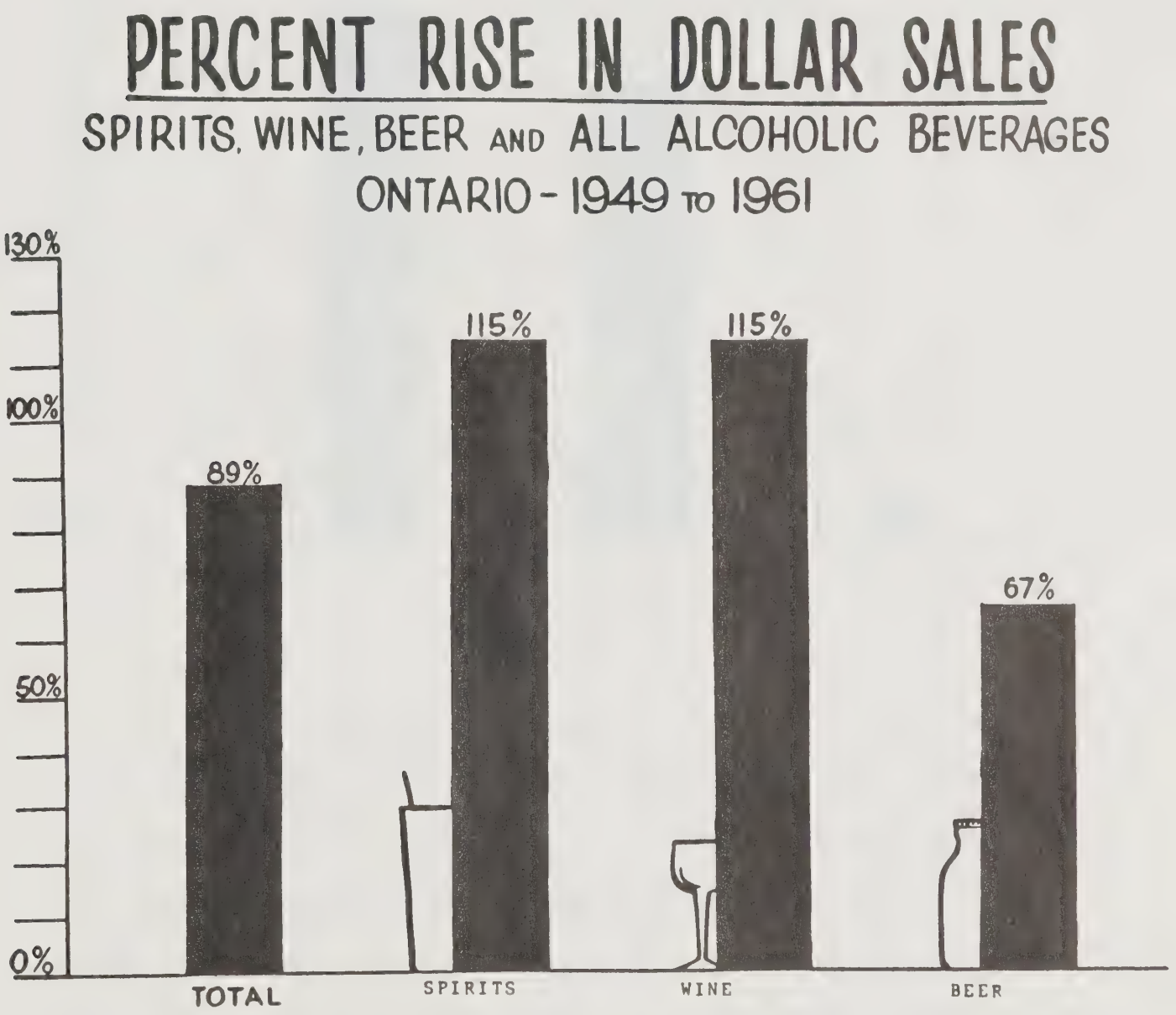
It will be noted that in terms of gallons the consumption of spirits in Ontario advanced by 81 per cent in the period 1949-61, that of wines went up 50 per cent, while beer sales rose by only 35 per cent.

Perhaps more significant is the change in the share of the total consumption for spirits, wine, and beer. This is illustrated in the following chart.



It will be seen that during the period 1949-61 spirits' share of the total alcoholic beverage market in Ontario increased by 32.6 per cent, wine's share increased by 6.7 per cent. On the other hand beer's share dropped by 1.8 per cent.

In current dollar terms, which includes an element of price inflation for all three components, provincial sales of spirits have risen 115 per cent from 1949 to 1961, wine sales by a like amount, while beer sales were up only 67 per cent. This is shown on the following chart.

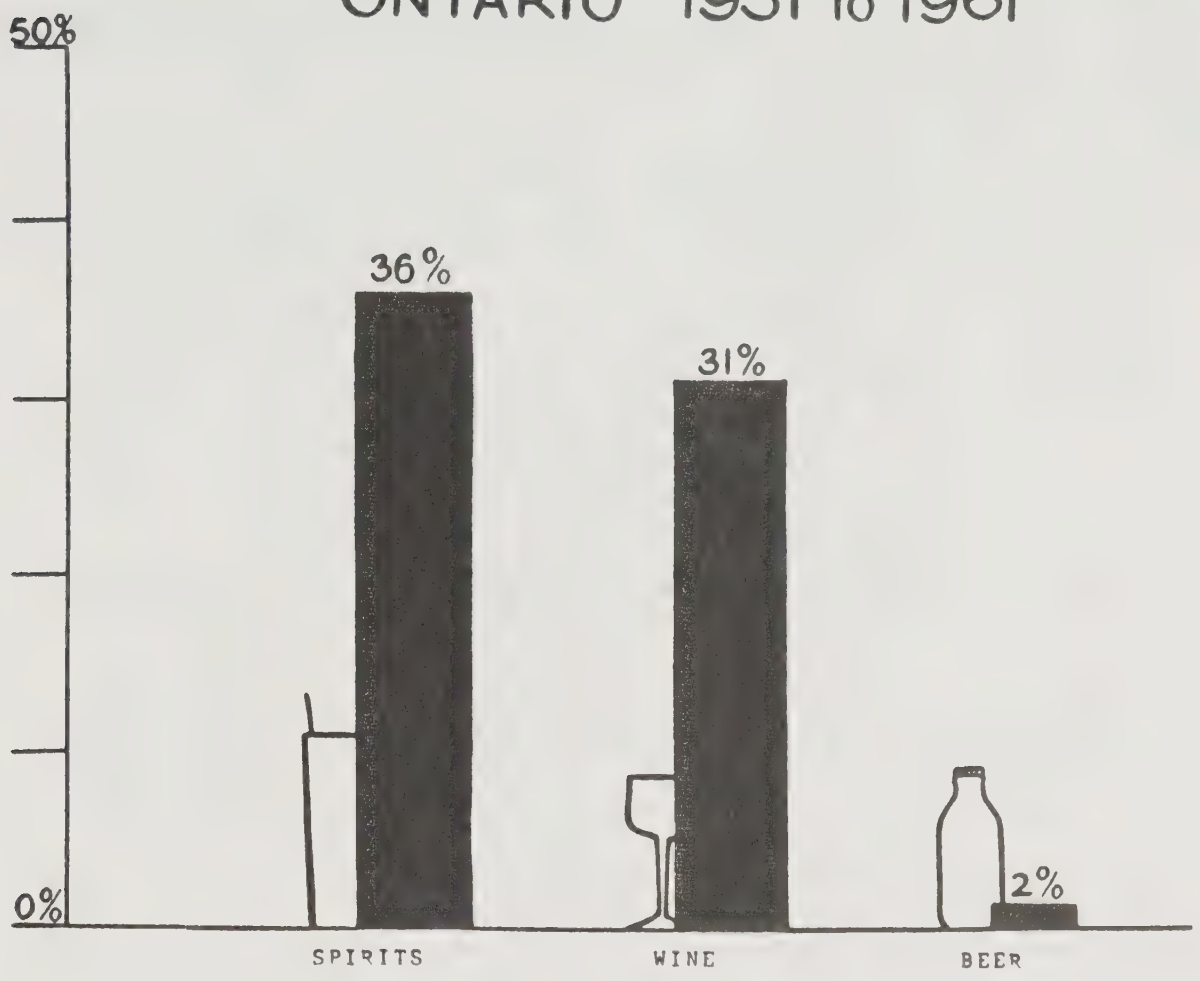


In terms of gallons consumed per adult, it will be observed from the chart on the following page that between 1951 and 1961, official census years for which the most accurate and recent population figures are available, spirits consumption increased 36 per cent, wine 31 per cent, while beer increased by only 2 per cent.

PERCENT RISE IN GALLONS SOLD PER ADULT

SPIRITS, WINE, BEER AND ALL ALCOHOLIC BEVERAGES

ONTARIO - 1951 TO 1961



The majority of sales of all alcoholic beverages in Ontario is through off-premise outlets. The off-premise price of a case of 24 small bottles of beer in Southern Ontario including a 50-cent deposit on the containers is $4.36 compared with a price of $3.90 for a bottle of the more popular brands of spirits.

The lack of differential in the price of beer relative to the prices of beverages of higher alcoholic content is a major factor causing the consumption shift away from beer.

Recognizing that relative price levels are a major factor influencing consumption patterns of different types of alcoholic beverages, and that a consumption trend away from beer toward the beverages of higher alcoholic content is undesirable from a social

welfare point of view, several governments in countries such as Belgium, Mexico, Denmark, Czechoslovakia, and others have, through preferential beer tax structure, influenced consumption towards beer.

Since 1949 most of the brewing industry's major costs -- including taxes -- have steadily increased. Despite these rising costs, the industry has to date avoided major price increases by improving efficiency through the introduction of virtually every possible operational and technological change.

However, the point has been reached where it is difficult for the industry to make further advances in operational and technological efficiencies in order to offset the pressure of rising production and distribution costs and thus hold the present price line. Any increase in the price of beer relative to that of beverages of higher alcoholic content can only help to accelerate the consumption trend away from beer.

Included in the present price of beer are special Federal and Ontario beer taxes. The special Ontario tax is the provincial gallonage levy. This levy is imposed under Section 5(1) of Regulation 405 made under the Liquor Control Act of Ontario which specifies that a brewing company that produces beer in Ontario must pay an annual fee of:

(a) $1,500, and

(b) when the production
    (i) is less than two million gallons, 16-1/2 cents per gallon, or

    (ii) exceeds two million gallons, 18-1/2 cents per gallon,

as determined by the final dip of the fermenting vessel and recorded in the Dominion Excise Department's Brewers' Daily Record.

On this there is permitted an allowance of 5 per cent to compensate for the normal shrinkage in the production process after final dip.

RECOMMENDATION

> The gallonage tax rate should be reduced immediately to a lower level to bring beer taxation more in line with that borne by other manufactured products.

In addition to the preceding remarks we believe that in today's special Federal and Ontario beer tax rates there may be residual effects of what was one time simply punitive taxation of a so-called "permissive" industry.

Surveys of public attitude toward the brewing industry show that beer is accepted as a staple beverage by the majority of Ontario adults. Furthermore, appropriate treatment is accorded the industry in other legislative areas, vis-à-vis its competitors, e.g., advertising, distribution and sale. These are merely two reasons why brewing is no longer a permissive industry. Any residual punitive taxation should therefore be eliminated.

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(b) Inequities and Anomalies in the Application of:

(i) The Ontario Gallonage Levy.

(ii) The Ontario Retail Sales Tax.

The gallonage levy as imposed in Section 5(1) of Regulation 405 made under the Liquor Control Act of Ontario is described as an annual fee.

We contend that it is in fact a tax, and not a fee. The result of the application of the Ontario Retail Sales Tax to the selling price which includes this gallonage tax results in a "tax on tax" anomaly.

Moreover, the provincial gallonage tax is paid well in advance of the sale of the product resulting in a considerable interest burden on capital tied up in tax-paid inventories.

(i) RECOMMENDATION

The gallonage levy should be recognized for what it is -- a consumer tax -- and should be levied in the same manner as the Ontario Gasoline Tax.

(ii) RECOMMENDATION

The Ontario Retail Sales Tax Act should provide exemption for beer because it is already taxed under the Liquor Control Act.

Brewers' Warehousing Company Limited and brewery retail outlets at present collect and remit the Ontario Retail Sales Tax. These facilities could be made available for the collection and remittance of the Ontario Gallonage Tax recommended above.

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(c) Store Licence Fees

Section 5(3) of Regulation 405 made under the Liquor Control Act of Ontario provides that a brewing company selling beer through the stores or the distributing warehouses of the Brewers' Warehousing Company Limited, or through a brewery retail store, must pay an annual licence fee of $100 to the Liquor Control Board for each store or distributing warehouse. This fee is in addition to normal business taxes and represents a further unwarranted tax burden on our industry.

RECOMMENDATION

Store licence fees should be discontinued.

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V. HISTORY OF THE ONTARIO BREWING INDUSTRY

Commercial brewing of beer in Ontario is approximately 150 years old, dating back to the early years of the nineteenth century. Breweries began to spring up to parallel population growth. As demand expanded, the number of breweries increased apace, into the twentieth century. Indeed at the outbreak of World War I there were more than 40 breweries in the province.

In 1916 the Prohibition Era began with the passing of the Ontario Temperance Act. Under prohibition breweries could sell their products in Ontario only to the government for resale to residents holding a doctor's prescription. In the face of this market-limiting legislation, many of the Ontario breweries were forced to close.

Prohibition ended in June, 1927, following the passing of the Liquor Control Act which permitted the sale of beer under government supervision for home consumption. Once again the number of breweries increased and during the year that followed the ending of prohibition, 27 breweries were producing to meet the demand of Ontario residents.

In October, 1927, Brewers' Warehousing Company Limited was formed to handle the distribution and sale of beer in the province. Originally such distribution and sale was on a contract basis through local distributors. This arrangement finally ended in the late 1940's when all distribution facilities were taken over by Brewers' Warehousing Company.

In 1934 legislation was passed permitting the sale of beer by the glass.

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VI. THE IMPORTANCE OF THE INDUSTRY TO THE ECONOMY OF THE PROVINCE

The Ontario brewing industry is of significant importance to the economy of the province.

It consists of 15 breweries producing beer in 11 communities for both the Ontario market and for export to other provinces and other countries.

In addition the Ontario brewing companies cooperatively own and operate Brewers' Warehousing Company, the industry's wholesale and retail distribution system with approximately 300 stores located in some 200 communities throughout the province.

The importance of the industry to the economy of the many municipalities with which it is associated is evident when one considers that it pays annually in realty taxes, business taxes, and rent, more than $3,500,000 to the communities in which the brewing plants and the stores of Brewers' Warehousing Company are located.

Moreover, the brewing industry in Ontario employs directly more than 5,000 men and women and is known as an exemplary employer, offering good wages, welfare benefits, and working conditions. In 1961 alone it paid more than $28,500,000 in salaries and wages.

As a major customer of other industries in the province the Ontario brewing industry spent more than $55,000,000 in 1961, and at the same time contributed to the employment of many thousands of persons in such industries as construction, transportation, packaging, printing and malting.

The industry is also a major producer of tax revenue for both the provincial and federal governments. Taxes paid to the Ontario government over and above

regular corporation and business taxes were in excess of $18,000,000 in 1961. Over the past decade it has paid more than $115,000,000 to the province in taxes.

We believe that the brewing industry exhibits a high degree of citizenship, contributing significantly through its corporate-giving programmes to the development of education and the support of educational institutions, to the health and welfare activities of communities across the province, and to cultural growth in many fields.

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VII. CONCLUSION

In the light of the foregoing submission we urge your Committee to give serious consideration to recommending the elimination of the tax inequities and anomalies which affect beer.

The industry would pass on to the consumer any worthwhile tax saving. We recognize, of course, that if the government adopted our recommendations there would be a decrease in revenue. We suggest that such loss should be recovered by reallocating the burden of taxation more equitably over all segments of the Ontario economy.

We should point out that we have endeavoured to keep this Submission to a reasonable length. It is based on a wealth of supporting data, and we shall be pleased to supply you with any additional information you may require.

Yours sincerely,

L. W. Holmes,
General Manager.

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